

Message Text

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC 7367

INFO USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OCD PARIS

AMCONSUL BORDEAUX

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 4673, FEBRUARY 21, 1975

1. SUMMARY. RECENT INTIMATIONS TO THE CONTRARY NOT-WITHSTANDING, GOF CONTINUES ITS VERBAL WAR AGAINST INFLATION DESPITE DEEPENING GLOOM AMONG BUSINESSMEN AND LATEST EVIDENCE THAT FRENCH INDUSTRIAL PRODUCTION CONTINUES TO DECLINE (DOWN TO LEVELS OF TWO YEARS AGO). IN HIS LATEST "FIRESIDE CHAT" FEBRUARY 25, PRESIDENT GISCARD D'ESTAING DISCLOSED NO NEW PLANS BUT SAID GOF WOULD SUSTAIN ECONOMY WITHOUT BOOSTING
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INFLATION; AND FINANCE MINISTER FOURCADE NOW SAYS

"REVIVING EXPANSION WOULD MEAN REVIVING INFLATION".
MEANWHILE, OFFICIAL FIGURES SHOW CONSUMER PRICES
ROSE 1.1 PERCENT IN JANUARY. END SUMMARY.

2. GOF RESUMES "HARD LINE" ON INFLATION -

PRESIDENT GISCARD D'ESTAING HAS ONCE AGAIN
RE-ASSERTED THAT FRANCE'S ECONOMY WILL BE SUSTAINED
AT PRESENT LEVELS OF ACTIVITY WITHOUT RELAUNCHING
INFLATION. IN HIS LATEST "FIRESIDECHAT" FEBRUARY 25,
GISCARD DID LITTLE MORE THAN CONSOLE FRENCH PUBLIC
WITH ASSURANCES THEIR ECONOMIC TROUBLES NOT AS SEVERE
AS ELSEWHERE, AND THAT GOF WILL SOMEHOW SUCCEED WHERE
OTHERS HAVE FAILED IN STIMULATING ECONOMY AND REDUCING
UNEMPLOYMENT WITHOUT BOOSTING INFLATION; ONLY REAL
NEWS IN PRESIDENT'S SPEECH WAS ANNOUNCEMENT OF
LIMITED MEASURES TO ACCELERATE INCREASED AID TO
ELDERLY AND FAMILIES AND TO ASSIST FARMERS. (DETAILS
AND ANALYSIS OF SPEECH REPORTED PARIS 5047.) ALSO,
FOLLOWING PRESIDENT'S SPEECH GOF ANNOUNCED 3 PERCENT
HIKE IN MINIMUM HOURLY WAGE. THIS LATEST INCREASE,
TRIGGERED AUTOMATICALLY BY RISE IN CONSUMER PRICE
INDEX, TOOK EFFECT MARCH 1, AND BROUGHT MINIMUM MONTHLY
EARNINGS TO FF 1,209 FOR 40-HOUR WORK WEEKS (ROUGHLY
25 PERCENT ABOVE LEVEL OF ONE YEAR AGO).

IN INTERVIEW THE DAY BEFORE GISCARD'S ADDRESS,
FINANCE MINISTER FOURCADE APPEARED TO REVERSE LINE
IMPLIED IN HIS RECENT STATEMENTS (SEE PARIS 3448),
WHEREBY GOF SEEMED WILLING TO COUNTENANCE HIGHER
INFLATION IF NECESSARY TO BOOST BUSINESS ACTIVITY.
STATING THAT "REVIVING EXPANSION WOULD MEAN REVIVING
INFLATION", FOURCADE SAID GOF WOULD PURSUE STABILIZA-
TION POLICIES DESPITE "DIFFICULTIES AND OCCASIONAL
SUFFERING" ENTAILED THEREBY, IN ORDER TO ESTABLISH
BASIS FOR "HEALTHY AND DURABLE GROWTH". AND, IN FACE
OF SIGNS THAT ECONOMIC SKY MAY BE DARKENING IN
FRANCE (PARA. 3 BELOW), FOURCADE SAID GOF WOULD WAIT
UNTIL END OF FIRST HALF BEFORE INTRODUCING "CORRECTIVE
MEASURES" INTO ITS ECONOMIC PROGRAM.

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3. ECONOMIC OUTLOOK LOSES SILVER LINING -

WHEREAS EARLIER REPORTS HAD INDICATED SOME HOPE
FOR PICKUP IN INTERNAL DEMAND SOMETIME DURING LATE
SPRING (SEE REFTTEL AND PARIS 2151), LATEST SURVEYS
OF FRENCH ECONOMIC OUTLOOK PRESENT, ON AVERAGE, MORE
SOMBER PICTURE THAN HERETOFORE. TAKING CUSTOMARY

PLACE ON PESSIMISTIC END OF SPECTRUM, FRENCH PATRONAT
(ROUGHLY EQUIVALENT TO NAM) PROCLAIMED FRENCH ECONOMY
TO BE IN THROES OF "MOST SEVERE RECESSION IN POSTWAR
ERA". SEMI-OFFICIAL INSEE (NATIONAL STATISTICS
INSTITUTE) SURVEY WAS, HOWEVER, MORE OPTIMISTIC THAN
THOSE CONDUCTED BY PRIVATE SECTOR.

BUSINESSMEN SURVEYED BY INSEE IN FEBRUARY
REPORTEDLY LESS PESSIMISTIC THAN THEY HAD BEEN PRE-

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VIOUSLY REGARDING NEAR-TERM OUTLOOK FOR FRENCH INDUSTRY.
SOME SIGNS APPEARED THAT DECLINE IN ORDERS MAY BE
"BOTTOMING-OUT", ALTHOUGH INVENTORIES REMAIN AT

EXCESSIVE LEVELS IN NEARLY ALL SECTORS. OVERALL OUT-LOOK FOR INDUSTRIAL PRICES SAID TO CORRESPOND ROUGHLY TO 6 PERCENT ANNUAL RATE OF INCREASE.

ACCORDING TO LATEST REPORT ON ECONOMY BY PARIS CHAMBER OF COMMERCE, OUTLOOK FOR FIRST SIX MONTHS OF YEAR IS "SCARCELY REASSURING", ALTHOUGH PROSPECTS FOR SECOND QUARTER APPEAR SOMEWHAT BETTER THAN FOR FIRST QUARTER. MOST SEVERE DECLINE IN BUSINESS EXPECTED IN HEAVY INDUSTRY (MORE SPECIFICALLY, IN INTERMEDIATE-GOODS PRODUCTION, ESPECIALLY CHEMICALS
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AND METALS). NOTING SOME SIGNS OF REVIVAL OF INTERNAL DEMAND IN GERMANY, CHAMBER REPORT SAW SOME IMPROVEMENT IN OVERALL EXPORT PROSPECTS FOR SECOND QUARTER.

LATEST PATRONAT REPORT ON ECONOMY REITERATED EARLIER OBSERVATIONS THAT EXISTENCE OF SWOLLEN INVENTORIES WILL HOLD DOWN PRODUCTION EVEN IF DOMESTIC DEMAND SHOULD PICK UP (SEE REFTTEL), AND ADDED NEW WARNINGS THAT DECLINING INVESTMENTS RISK KEEPING ECONOMY IN DOLDRUMS FOR YEARS TO COME. AND, ACCORDING TO FEBRUARY TOUR D'HORIZON BY ECONOMIC DAILY "LES ECHOS", WHATEVER HOPES INDUSTRIALISTS HELD IN JANUARY FOR MEDIUM-TERM REVIVAL IN ECONOMY HAVE NOW EVAPORATED, WITH LITTLE PROSPECT FOR AN UPTURN IN BUSINESS BEFORE 1976. OVERALL CLIMATE IN BUSINESS AND INDUSTRY, "LES ECHOS" CONCLUDES, IS DARKEST IT HAS BEEN IN OVER TEN YEARS.

4. PRICES RISE 1.1 PERCENT IN JANUARY -

FOLLOWING SLIGHT EASING IN TWO PREVIOUS MONTHS, RATE OF FRENCH PRICE INFLATION PICKED UP IN JANUARY WITH 1.1 PERCENT INCREASE IN INSEE CONSUMER PRICE INDEX. MONTHLY INCREASES FOR NOVEMBER AND DECEMBER HAD BEEN 0.9 AND 0.8 PERCENT, RESPECTIVELY. OVER PREVIOUS 12 MONTHS PRICES HAD THUS GONE UP 14.5 PERCENT, COMPARED TO 15.2 PERCENT RECORDED FOR CALENDAR YEAR 1974.

WHILE THE JANUARY INCREASE SLIGHTLY EXCEEDED GOF'S GOAL (LESS THAN ONE PERCENT MONTHLY RATE OF INFLATION AT TURN OF THE YEAR), OFFICIALS QUICK TO NOTE NOVEMBER-JANUARY AVERAGE MONTHLY INCREASE (0.96 PERCENT) CAME WITHIN ACCEPTABLE BOUNDS.

JANUARY PRICE INCREASES LED BY PRICES FOR SERVICES (UP 1.3 PERCENT FROM DECEMBER) AND MANUFACTURED

PRODUCTS UP 1.2 PERCENT); FOOD PRICES ROSE ONLY 0.6 PERCENT. AS NOTED REFTEL, PRICE INCREASES FOR SERVICES HAD BEEN ANTICIPATED IN JANUARY DUE TO INCREASED RENTS AND MEDICAL, INSURANCE AND OTHER CHARGES.
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5. INDUSTRIAL PRODUCTION DROPS TO 1972 LEVELS -

FRENCH INDUSTRIAL OUTPUT HAS DROPPED TO LEVEL OF MORE THAN TWO YEARS AGO. OVERALL INSEE MONTHLY INDEX OF INDUSTRIAL PRODUCTION (SEASONALLY ADJUSTED, BASE 1970 AS 100) SET AT 114 FOR DECEMBER, DOWN 3 PERCENT FROM 118 IN NOVEMBER (REVISED) AND 122 IN OCTOBER. INDEX FOR DECEMBER WAS LOWEST RECORDED SINCE OCTOBER 1972.

FRENCH INDUSTRIAL PRODUCTION
(SEASONALLY ADJUSTED; BASE 1970 AS 100)

APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
124	126	126	128	128	121	122	118	114

FINANCE MINISTRY COMMENT ON DECEMBER FIGURES SURMISED THAT INDUSTRIALISTS, FACED WITH UNCERTAIN MARKETS, HAD TAKEN ADVANTAGE OF YEAR-END HOLIDAYS TO CUT BACK PRODUCTION MORE THAN THEY WOULD HAVE NORMALLY; AND DESPITE AUTUMN DECLINE IN OUTPUT, OFFICIAL NOTE CONTINUED, AVERAGE LEVEL OF INDUSTRIAL PRODUCTION FOR 1974 WAS 3 PERCENT ABOVE THAT FOR 1973.

6. MONEY SUPPLY EXPANDED 18 PERCENT DURING 1974 -

UNADJUSTED MONEY SUPPLY, BROADLY DEFINED (M 2), ROSE TO 670.4 BILLION FRANCS BY END DECEMBER 1974;

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CURRENCY AND DEMAND DEPOSITS (M 1) TOTALED FF 382.8 BILLION, NEAR-MONIES AMOUNTED TO FF 287.6 BILLION.

ON SEASONALLY-ADJUSTED BASIS, M 1 AND NEAR-MONIES INCREASED DURING DECEMBER BY 2.4 AND 1.4 PERCENT, RESPECTIVELY. AT 655.6 BILLION FRANCS, M 2 HAD RISEN 2.0 PERCENT SINCE NOVEMBER AND 18.4 PERCENT OVER THE COURSE OF 1974 (COMPARED TO 14.9 PERCENT INCREASE IN 1973).

PROVISIONAL, SEASONALLY-ADJUSTED DATA ON COMPOSITION OF MONEY SUPPLY BY SOURCE SHOWED CREDITS TO THE ECONOMY AT FF 555.8 BILLION (UP 18.0 PERCENT DURING 1974), CLAIMS ON PUBLIC SECTOR AT FF 71.7 BILLION UNCLASSIFIED

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(UP 37.2 PERCENT), AND NET FOREIGN EXCHANGE RESERVES AT FF 37.4 BILLION (DOWN 6.1 PERCENT).

7. BANK LENDING RATES COME DOWN AGAIN -

FOLLOWING MODERATE, BUT STEADY DECLINE IN INTER-BANK RATE FOR DAY-TO-DAY MONEY,

FRENCH COMMERCIAL BANKS HAVE CUT THEIR LENDING RATES FOR SECOND TIME IN 1975, BRINGING THEIR PRIME RATE DOWN TO 13.25 PERCENT; IN EARLY JANUARY THEY HAD CUT THAT RATE TO 13.95 PERCENT FROM ITS HISTORIC PEAK OF 14.45 PERCENT. INTERBANK RATE HAS BALFALLENEN FROM ALMOST 12 PERCENT AT TIME OF LAST DROP IN LENDING RATES TO ABOUT 9.5 PERCENT RECENTLY. CONCURRENTLY ON FEBRUARY 27 BANK OF FRANCE ANNOUNCED CUT IN ITS DISCOUNT RATE FROM 12 PERCENT TO 11 PERCENT; AS NOTED PARIS 823, HOWEVER, CHANGE IN DISCOUNT RATE IS PRIMARILY OF PSYCHOLOGICAL IMPORTANCE ONLY, SINCE ORDINARILY BOF NO LONGER PROVIDES REFINANCING TO BANKS THROUGH DISCOUNT WINDOW. NEVERTHELESS, THE MOVE DOES REPRESENT A SIGNAL TO FRENCH FINANCIAL COMMUNITY THAT GOF WANTS TO SEE FURTHER EASING IN FRENCH INTEREST RATES - WHICH CONTINUE TO BE HIGHEST IN EUROPE.

8. OTHER REPORTS SUBMITTED DURING THE PERIOD -

AIRGRAMS

A-90 FRENCH FOREIGN EXCHANGE
HOLDINGS FEBRUARY 20, 1975

A-98 TRADE WITH SOVIET BLOC FEBRUARY 27, 1975

A-99 TRADE WITH COMMUNIST
AREAS FEBRUARY 27, 1975
RUSH

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